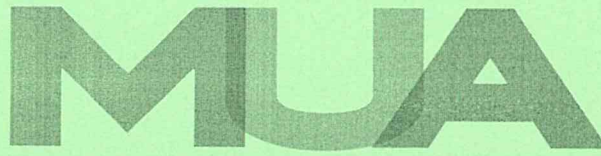


The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

BCM 211 : ACCOUNTING FOR ASSETS

DATE: DECEMBER 2015

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

- a) The following details relate to two items of property, plant and equipment (A and B) owned by Mega which are depreciated on a straight-line basis with no estimated residual value:

	Item A	Item B
Estimated useful life at acquisition		
	8 years	6 years
	Shs'000	Shs'000
Cost on 1 April 2010	240,000	120,000
Accumulated depreciation (two years)	(60,000)	(40,000)
Carrying amount at 31 March 2012	180,000	80,000
Revaluation on 1 April 2012:		
Revalued amount	160,000	112,000
Revised estimated remaining useful life		
	5 years	5 years
Subsequent expenditure capitalized on 1 April 2013		
	Nil	14,400

At 31 March 2014 item A was still in use, but item B was sold (on that date) for Shs.70 million.

Note:

Mega makes an annual transfer from its revaluation surplus to retained earnings in respect of excess depreciation.

Required:

a) Prepare extracts from:

- i. Mega's statements of profit or loss for the years ended 31 March 2013 and 2014 in respect of charges (expenses) related to property, plant and equipment; (5 Marks)
- ii. Mega's statements of financial position as at 31 March 2013 and 2014 for the carrying amount of property, plant and equipment and the revaluation surplus (10 Marks)

b) Explain the importance of a company's financial statement to the government

(5 Marks)

c) Explain the accounting treatment and research and development costs

(5 Marks)

QUESTION TWO

- a) A director of Mawingo, a public listed company, has expressed concerns about the accounting treatment of some of the company's items of property, plant and equipment which have increased in value. His main concern is that the statement of financial position does not show the true value of assets which have increased in value and that this 'undervaluation' is compounded by having to charge depreciation on these assets, which also reduces reported profit. He argues that this does not make economic sense.

Required:

Respond to the director's concerns by summarizing the principal requirements of IAS 16 Property, Plant and Equipment in relation to the revaluation of property, plant and equipment, including its subsequent treatment. (7 Marks)

b) Explain the contents and forms of financial statements of a limited company

(8 Marks)

QUESTION THREE

The following information relates to Aquila Plc for the year ended 31 Dec 2014:

Shs

Plant and Equipment:

1 Jan 2014: Cost 500,000

Acc.depreciation 200,000

Useful life 6 years

On 31 Dec 2014, the directors advised that the impairment test be carried out and it was found that the value in use and net fair value of the asset were ksh.280,000 and shs.270,000 respectively.

Required:

a) Advice the directors on how the impairment loss calculated from the above transactions can be treated (8 Marks)

b) At the end of each reporting period, an entity is required to assess whether there is any indication that an asset may be impaired. Explain some of the indicators

(7 Marks)

QUESTION FOUR

Tremos has produced its draft financial statements for the year ended 30 September 2013 and two issues have arisen:

- i. On 1 September 2013, Tremos factored (sold) Sh.2 million of trade receivables to Pewa. Tremos received an immediate payment of Sh.1 8 million and credited this amount to receivables and charged Sh.200, 000 to administrative expenses. Tremos will receive further amounts from Pewa depending on how quickly Pewa collects the receivables. Pewa will charge a monthly administration fee of Sh.10, 000 and 2% per month on its outstanding balance with Tremos. Any receivables not collected after four months would be sold back to Tremos; however, Tremos expects all customers to settle in full within this period. None of the receivables were due or had been collected by 30 September 2013.

(8 marks)

- ii. On 1 October 2012, Tremos sold a property which had a carrying amount of Sh.3 5 million to a property company for Sh.5 million and recorded a profit of Sh.1 5 million on the disposal. Part of the terms of the sale are that Tremos will rent the property for a period of five years at an annual rental of Sh400, 000? At the end of this period, the property company will sell the property through a real estate company/property agent at its fair value which is expected to be approximately Sh.6 5 million. Tremos will be given the opportunity to repurchase the property (at its fair value) before it is put on the open market.

(7 Marks)

All of the above amounts are deemed to be at commercial values.

Required:

Explain, and quantify where appropriate, how Tremos should account for the above two issues in its financial statements for the year ended 30 September 2013.

(15 Marks)

QUESTION FIVE

- a) Explain the accounting treatment of Goodwill according to IAS 38 Intangible assets (8 Marks)
- b) What are the limitations of financial statements (7 Marks)

QUESTION SIX

Write short notes on the following:

- a) Amortization (3 Marks)
- b) Impairments (3 Marks)
- c) Prudence concept (3 Marks)
- d) Realization concept (3 Marks)